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Health Insurers Pressing Down on Drug Prices

By Andrew Pollack

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In dealing with health plans, drug companies are facing a new imperative — bargain or be banned.

Determined to slow the rapid rise in drug prices, more health plans are refusing to cover certain drugs unless the companies charge less for them.

The strategy appears to be getting pharmaceutical makers to compete on price. Some big-selling products, like the respiratory medicine Advair and the diabetes drug Victoza, have suffered precipitous declines in market share because Express Scripts, the biggest pharmacy benefits manager, recently stopped paying for them for many patients.

"There's clearly more price competition in the marketplace," Andrew Witty, chief executive of GlaxoSmithKline, said, talking about Advair in a recent company earnings call.

Executives of pharmacy benefit management firms say they must do something to cope with rising prices, particularly for so-called specialty pharmaceuticals, which are used to treat complex diseases like cancer and multiple sclerosis.

Spending on specialty drugs rose 14.1 percent last year and by even greater amounts in previous recent years, according to Express Scripts. Most of that increased spending comes not from new drugs or new patients, but from price increases on older drugs that can often exceed 10 percent year after year.

Many other countries control drug prices in some manner, so drug companies have become dependent on increasing prices in the United States to grow.

Pharmaceutical companies rarely talk in detail about how they set prices or decide on price increases. They generally say that the price reflects the value of the medicine, which in some sense is a measure of what the market will bear.

They also say that insurers and government programs like Medicaid typically pay less than list price, though how much is usually kept confidential. If health plans are now winning bigger discounts or rebates, it will not show up in list prices but will help relieve pressure on insurance premiums.

That appears to be happening to some extent. Analysts at Credit Suisse estimate that the collective discounts and rebates for 15 large drug companies amounted to 31.9 percent of gross United States sales in 2013, up from 30.2 percent in 2012 and 19.7 percent in 2007.

How much bigger and broader discounting will become remains to be seen. Tim Anderson, pharmaceutical analyst at Sanford C. Bernstein & Company, said he had always been skeptical that pharmacy benefit managers could rein in prices.

"Express Scripts and other payers can talk tough whenever they want, but it only turns into reality when they have a drug company that is willing to break rank and play the price card," he said. He said that drug companies, while not colluding, "have all looked at each other and said, 'None of us needs to compete on price if we just hold the line.' "

But Mr. Anderson said that the recent developments with respiratory and diabetes drugs does suggest formularies are being tightened.

Formularies are lists of drugs that a health plan will cover. Typically they try to wring discounts from drug companies by offering better placement in the formulary. A less expensive drug will have a lower co-payment to encourage patients to use it.

But drug companies now help patients with their co-payments through coupons. That removes the incentive for patients to use the lower-priced drugs and lessens the incentive for drug companies to bargain.

In response, some pharmacy benefit managers are dropping some drugs from the formulary, rendering the co-payment cards ineffective. If patients want that drug, they have to pay full price by themselves.

CVS Caremark, the second-largest pharmacy benefit manager, started excluding about 30 drugs in 2012 and this year is excluding about 70 from the formulary used by many of its employer clients. Express Scripts this year began excluding 48 drugs or medical products, including Advair and Victoza.

Catamaran began offering an optional formulary this month that excludes 54 drugs.

With exclusions, bidding to get on the formulary becomes more of a winner-take-all contest. The winning companies gain more market share because rivals are excluded, so "they are willing to give us greater discounts," said Dr. Steven Miller, chief medical officer of Express Scripts.

He said the new formulary, which covers more than 25 million people, would save about $700 million this year for clients who adopt it, or about 2 to 3 percent of their spending on drugs.

Jonathan C. Roberts, president of the pharmacy benefit management business at CVS Caremark, said there was an average combined savings for health plans and patients of $67 for each prescription switched from an excluded drug to a covered drug.

The new Express Scripts formulary went into effect for most patients in January, and the effect on prescriptions was swift.

Advair sales in the United States plummeted 30 percent in the first quarter, while sales of AstraZeneca's Symbicort, a rival that remained on the formulary, grew 20 percent.

Novo Nordisk executives said that overall sales growth for this year would be about 2 percentage points lower than they would have been because Express Scripts had excluded both Victoza and Novo's mealtime insulin products.

Other pharmacy benefit managers say they use exclusions more sparingly.

"We are seeing an increased request for these narrower formularies and excluded drugs," said David Lassen, chief clinical officer at Prime Therapeutics, a pharmacy benefit manager owned by various Blue Cross and Blue Shield plans.

But he and some other executives said exclusions could cause disruptions for patients who must switch drugs. They can be used only when there are several equivalent drugs available, lest doctors and patients complain.

"You can't just go for the least expensive," said Dr. Brian K. Solow, chief medical officer of OptumRx, which is owned by the UnitedHealth Group. "You have to think about what is best for patients."

In March, Medicare, under heavy pressure from drug companies, patient groups and Congress, abandoned a proposal to allow Medicare Part D plans to exclude some drugs for depression and schizophrenia.

Patients with Gaucher disease protested when UnitedHealthcare recently required virtually all patients to use just one of the three similar and very expensive therapies available for that disease. Patient groups have also expressed concern that health plans offered through the new insurance exchanges tend to have more exclusions and other restrictions on drugs than employer-funded plans.

Dr. Miller said the excluded drugs represented only a carefully selected 1 percent of drugs covered by Express Scripts and that the company had little problem switching patients.

The battle could escalate. Mr. Roberts said CVS next year would offer an optional formulary with 200 exclusions. Glaxo is now essentially offering to provide drugs affected by formulary restrictions free of charge to keep patients using its products.

Novo Nordisk executives said on the company's first-quarter earnings call that the competitors who outbid them for the Express Scripts contract had not really gained much because they were paying higher rebates in exchange for a slightly higher market share. That might discourage companies from competing on price in the future.

"I would tend to believe the players will act to expand the segment if they have long-term interest in being in this field," Novo's chief executive, Lars Rebien Sorensen, said.

A big test of the strategy could come next year with drugs for hepatitis C. Health plans are worried about their ability to afford Sovaldi, a new drug from Gilead Sciences that costs $84,000 for a typical course of treatment. But AbbVie and Merck are expected to introduce competitive drugs, and the payers hope to pit one manufacturer against another to drive down prices.

The AbbVie chief executive, Richard Gonzalez, in response to a question in the company's first-quarter call, suggested his company would compete on the merits of its product, not price.

"We have a product profile that stands up quite nicely in the marketplace, so that's not our strategy going forward," he said.

A top Pfizer executive made a similar comment when asked if the company should offer bigger discounts on Xeljanz, a new pill for rheumatoid arthritis that was excluded by Express Scripts.

But some executives say they sometimes have no choice but to deal.

"We are fighting to make sure that patients continue to have choice," Enrique Conterno, who runs the diabetes business at Eli Lilly, said in his company's call. Nonetheless, he added, "We need to be competitive whenever a payer basically makes the decision that they are going to narrow the formulary."